STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. WRU-04-56-150

ORDER DENYING REQUEST FOR WAIVER

(Issued January 24, 2005)

On December 9, 2004, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) a request for a waiver of certain aspects of the cash working capital requirements contained in 199 IAC 7.4(6)"e"(5). Specifically, IPL seeks to avoid performing a lead-lag study in future gas and electric rate cases for certain items included in the cash working capital requirement. IPL supplemented its filing on December 15, 2004, with exhibits that were inadvertently omitted from the original filing. The Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an objection to the request on December 22, 2004. IPL replied to the objection on January 10, 2005.

Subparagraph 199 7.4(6)"e"(5) requires that electric and gas rate cases include a cash working capital calculation that includes a recent lead-lag study which accurately represents conditions during the test period. A lead-lag study is defined "as a procedure for determining the weighted average of the days for which investors or customers supply working capital to operate the utility." In prior rate cases, IPL complied with the subrule by filing comprehensive lead-lag studies to support its cash working capital calculations.

In support of its waiver request, IPL states that the required calculations are very labor-intensive and have little value to the rate case. For example, IPL found that more than 98 percent of the cash working capital requirements for its electric rate cases over the past ten years are explained by six items: labor, coal (including freight), nuclear fuel, electricity purchased (net), property taxes, and interest on long-term debt. However, the remaining 13 items for which cash working capital was determined took approximately 91 hours to calculate, compared to 36 hours for the six major items. IPL reported more dramatic findings for gas rate cases, where four items explained approximately 100 percent of the cash working capital requirements, but calculations had to be completed for seven other items.

As an alternative to preparing lead-lag studies on all items used in the cash working capital calculation, IPL asked that for the non-significant items an average be used determined by the respective average days of lead from IPL's last three rate cases. For significant items, IPL would continue to prepare lead-lag studies as provided for in 199 IAC 7.4(6)"e"(5). In IPL's most recent rate case, the impact on the revenue requirement is less than $250,000; for gas, it is less than $35,000.

In its reply to Consumer Advocate's objection, IPL acknowledged its waiver request cannot be defended on the basis of a strict cost-benefit analysis. However, the cash working capital requirements are not precise calculations, but based on a lead-lag study that provides an approximation for determining a utility's cash working capital requirements. There are other methods other than using lead-lag studies to determine cash working capital requirements. Methods used by the Federal Energy Regulatory Commission and the Public Service Commission of Wisconsin, for example, take only a few minutes to complete.

Consumer Advocate argued that the likely savings are insignificant relative to the potential revenue requirements impact. Consumer Advocate's calculations show that in the last rate case IPL would have saved $6,000 by not performing the calculations and studies for what IPL called non-significant items. However, if the calculations had not been done, the revenue requirement would have increased by over $220,000. Consumer Advocate also contended it was inappropriate to use data more than ten years old to calculate an average net expense lead day amount for use in a current rate case.

The Board is concerned about the use of old data in a lead-lag study, which measures the amount of cash required for operating expense by measuring the difference between (1) the time a service is rendered until the time revenues for that service are received (lag) and (2) the time that services materials and other items are obtained or used and the time expenditures for those services are made (lead). For each major category of expense, the difference between those periods, expressed in days, multiplied by the average daily operating expense, provides the amount of the cash working capital requirement.

IPL's calculations show that there would have been an increase of over $220,000 in IPL's last electric rate case revenue requirement if IPL's proposal was in effect. This is a significant amount compared to the approximately $6,000 cost of the additional calculations. As an alternative, IPL, in its reply to Consumer Advocate's objection, offered to zero out the alleged non-significant items so they would not be included in the cash working capital calculation. However, this method would have increased the revenue requirement in IPL's last rate case by over $145,000.

IPL's waiver request will be denied. It is important to use current data in lead-lag studies and the savings to IPL from its proposal are insignificant compared to the potential impact on the revenue requirement. The standards for a waiver contained in 199 IAC 1.3 have not been met.

IT IS THEREFORE ORDERED:

The request for waiver of 199 IAC 7.4(6)"e"(5) filed by Interstate Power and Light Company on December 9, 2004, as supplemented on December 15, 2004, is denied.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 24th day of January, 2005.